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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Mayor Michael D. Antonovich  
Supervisor Gloria Molina, Chair  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **FISCAL MONITORING OF DEPARTMENT OF MENTAL HEALTH  
CONTRACT SERVICE PROVIDERS FOR FISCAL YEAR 2003-2004**

The County Department of Mental Health (DMH) provides mental health services through DMH-operated clinics, and through contracts with other County departments and private agencies (contract service providers). Mental health services are funded with State and federal monies. The funds must be used in accordance with the requirements of the funding sources.

At the request of DMH, we contracted with a Certified Public Accounting firm, M.R. Grant, CPAs, to conduct fiscal monitoring of DMH's service providers for fiscal year (FY) 2003-2004. The monitoring was intended to ensure that the providers complied with the applicable program requirements and the terms of the County contract. M.R. Grant also reviewed the service providers' fiscal controls to ensure proper controls were in place to manage funds received from DMH.

M.R. Grant completed its monitoring reviews for FY 2003-2004 and separately reported the results of their monitoring reviews for the 137 service providers (Attachment A). M.R. Grant identified \$370,569 in overbillings by contract service providers and \$99,186 in overbillings by DMH-operated service providers. M.R. Grant's reviews also identified other issues with the service providers, including missing patient financial information, as well as cost reports and allocation plans not filed with DMH. Attachment B is an explanation of the findings.

*"To Enrich Lives Through Effective and Caring Service"*

All reports were discussed with DMH representatives and the appropriate service providers.

DMH has collected \$111,414 in overpayments from the providers with overbillings and is in the process of collecting the remaining balance. However, a few of the providers have appealed the findings, which may affect the amount to be collected. DMH also requires the providers to submit corrective action plans to address the other findings reported by M.R. Grant. We recommend that DMH follow up to ensure all corrective action plans are received and verify that corrective actions are taken.

Due to the large number of audits, copies of the individual reports are not enclosed. If you wish to review any of the reports, please let me know.

JTM:MMO:JLS:MR

#### Attachments

c: David E. Janssen, Chief Administrative Officer  
Marvin J. Southard, D.S.W., Director, Department of Mental Health  
Violet Varona-Lukens, Executive Officer  
Public Information Office  
Audit Committee

**Department of Mental Health**  
**Fiscal Monitoring of Mental Health Service Providers**  
**Fiscal Year 2003-04**

| <b><u>Contract Service Providers</u></b> |  | <b><u>M.R. Grant<br/>Reported<br/>Over-Billings</u></b> | <b><u>Findings (A)</u></b> |
|--|--|---|----------------------------|
| 1.                                       | Alcott Center for Mental Health Services # 7229      | \$ 1,647  | (1)                        |
| 2.                                       | Asian Rehabilitation Services, Inc. # 6807           |   | (2)                        |
| 3.                                       | Aurora Charter Oak, LLC # 7399                       |   | (11)                       |
| 4.                                       | Barbour & Floyd Medical Associates # 7218            | 21,698  | (1)(2)                     |
| 5.                                       | Bienvenidos Children's Center, Inc. # 7381           | 5,524   | (3)                        |
| 6.                                       | Bienvenidos Children's Center, Inc. # 7382           | 2,399   | (1)(3)                     |
| 7.                                       | Cedars-Sinai Medical Center # 1980                   | 6,046   | (1)(2)                     |
| 8.                                       | Center for Healthy Aging # 7201                      | 2,587   | (1)                        |
| 9.                                       | Children's Bureau of Southern California # 7300      | 1,143   |                            |
| 10.                                      | Children's Bureau of Southern California # 7301      | 145   |                            |
| 11.                                      | Children's Bureau of Southern California # 7302      | 1,802   |                            |
| 12.                                      | Children's Bureau of Southern California # 7350      | 6,804   | (1)                        |
| 13.                                      | Children's Bureau of Southern California # 7473      | 850   |                            |
| 14.                                      | Children's Hospital of L.A. # 1989                   | 8,897   | (1)                        |
| 15.                                      | Children's Hospital of L.A. # 7363                   | 6,678   | (1)                        |
| 16.                                      | Children's Hospital of L.A. # 7449                   | 2,521   | (1)                        |
| 17.                                      | Didi Hirsch Community MHC # 1973                     | 719   |                            |
| 18.                                      | Didi Hirsch Community MHC # 1978                     | 8,627   | (1)                        |
| 19.                                      | Didi Hirsch Community MHC # 7046                     | 177   | (11)                       |
| 20.                                      | Didi Hirsch Community MHC # 7110                     |   | (11)                       |
| 21.                                      | Didi Hirsch Community MHC # 7209                     | 1,591   |                            |
| 22.                                      | Didi Hirsch Community MHC # 7334                     | 742   |                            |
| 23.                                      | Didi Hirsch Community MHC # 7357                     | 123   |                            |
| 24.                                      | Didi Hirsch Community MHC # 7359                     | 2,034   | (1)                        |
| 25.                                      | Didi Hirsch Community MHC # 7395                     |   |                            |
| 26.                                      | Didi Hirsch Community MHC # 7423                     | 1,079   | (1)                        |
| 27.                                      | Dubnoff Center for Child Development, Inc. # 7102    | 25,079  | (1)                        |
| 28.                                      | El Centro de Amistad # 7050                          | 2,151   | (1)(2)(4)(5)               |
| 29.                                      | El Centro de Amistad # 7371                          | 8,425   | (1)(2)(4)(5)               |
| 30.                                      | Exodus Recovery, Inc. # 7248                         | 18,952  | (1)                        |
| 31.                                      | Exodus Recovery, Inc. # 7294                         | 1,789   | (1)(2)                     |
| 32.                                      | Exodus Recovery, Inc. # 7385                         | 10,247  | (1)                        |
| 33.                                      | Five Acres - Boys & Girls Aid Society of L.A. # 7286 | 7,391   | (1)                        |
| 34.                                      | Five Acres - Boys & Girls Aid Society of L.A. # 7337 | 322   |                            |

(A) Findings are explained in Attachment B.

| <b><u>Contract Service Providers</u></b> |  | <b>M. R. Grant<br/>Reported<br/><u>Over-Billings</u></b> | <b><u>Findings (A)</u></b> |
|--|--|--|----------------------------|
| 35.                                      | Foothill Family Service # 7330                                 | \$   |                            |
| 36.                                      | Foothill Family Service # 7331                                 | 725  |                            |
| 37.                                      | Foothill Family Service # 7407                                 |  |                            |
| 38.                                      | Foothill Family Service # 7463                                 |  |                            |
| 39.                                      | Hathaway Children & Family Services # 7006                     | 5,386  | (1)                        |
| 40.                                      | Hathaway Children & Family Services # 7278                     | 3,528  | (1)                        |
| 41.                                      | Hathaway Children & Family Services # 7336                     | 4,044  |                            |
| 42.                                      | Heritage Clinic - Community Assist. Program for Seniors # 7430 | 2,120  |                            |
| 43.                                      | Homes for Life Foundation # 7245                               | 886  |                            |
| 44.                                      | Homes for Life Foundation # 7504                               | 2,497  | (1)(2)                     |
| 45.                                      | Homes for Life Foundation # 7506                               | 3,379  | (1)                        |
| 46.                                      | Intercommunity Child Guidance Center # 1972                    | 1,113  | (1)                        |
| 47.                                      | Intercommunity Child Guidance Center # 7339                    | 469  |                            |
| 48.                                      | Korean Youth & Community Center, Inc. # 7103                   | 5,613  | (1)                        |
| 49.                                      | L.A. Child Guidance Clinic # 6870                              | 3,467  | (1)                        |
| 50.                                      | L.A. Child Guidance Clinic # 7265                              | 412  |                            |
| 51.                                      | L.A. Child Guidance Clinic # 7276                              | 1,125  |                            |
| 52.                                      | L.A. Child Guidance Clinic # 7388                              | 175  |                            |
| 53.                                      | L.A. Gay & Lesbian Community Services Center # 7106            |  |                            |
| 54.                                      | Pacific Clinics # 1974   |  |                            |
| 55.                                      | Pacific Clinics # 1979   | 1,694  |                            |
| 56.                                      | Pacific Clinics # 7101   | 900  |                            |
| 57.                                      | Pacific Clinics # 7194   | 2,851  | (1)                        |
| 58.                                      | Pacific Clinics # 7197   | 2,221  | (1)                        |
| 59.                                      | Pacific Clinics # 7198   | 1,078  | (1)                        |
| 60.                                      | Pacific Clinics # 7224   |  |                            |
| 61.                                      | Pacific Clinics # 7227   |  |                            |
| 62.                                      | Pacific Clinics # 7251   | 6,127  | (1)                        |
| 63.                                      | Pacific Clinics # 7284   |  |                            |
| 64.                                      | Pacific Clinics # 7353   |  |                            |
| 65.                                      | Pacific Clinics # 7380   | 3,426  | (1)                        |
| 66.                                      | Pacific Clinics # 7401   | 1,937  | (1)                        |
| 67.                                      | Pacific Clinics # 7418   |  |                            |
| 68.                                      | Pacific Clinics # 7424   | 218  |                            |
| 69.                                      | Pacific Clinics # 7425   | 36   |                            |
| 70.                                      | Pacific Clinics # 7439   | 187  |                            |
| 71.                                      | Pacific Clinics # 7441   | 70   |                            |
| 72.                                      | Pacific Clinics # 7447   |  |                            |
| 73.                                      | Pacific Clinics # 7462   |  |                            |
| 74.                                      | Pacific Clinics # 7495   | 10,698   | (1)                        |

(A) Findings are explained in Attachment B.

| <b><u>Contract Service Providers</u></b> |   | <b><u>M.R. Grant<br/>Reported<br/>Over-Billings</u></b> | <b><u>Findings (A)</u></b> |
|--|---|---|----------------------------|
| 75.                                      | Pacific Clinics # 7502                                      | \$ 1,193  |                            |
| 76.                                      | Pacific Clinics # 7505                                      |   |                            |
| 77.                                      | Pasadena Children's Training Society # 7155                 | 18,727  |                            |
| 78.                                      | Pasadena Children's Training Society # 7296                 | 2,284   | (2)                        |
| 79.                                      | Pasadena Children's Training Society # 7397                 | 851   |                            |
| 80.                                      | Pasadena Children's Training Society # 7450                 | 2,773   | (1)                        |
| 81.                                      | Penny Lane Centers # 6863                                   | 548   |                            |
| 82.                                      | Penny Lane Centers # 7455                                   | 1,232   | (1)                        |
| 83.                                      | Penny Lane Centers # 7511                                   | 785   |                            |
| 84.                                      | Rosemary Children's Services # 7374                         | 3,501   | (1)(2)                     |
| 85.                                      | Saint John's Hospital & Health Center # 6773                | 2,112   | (1)                        |
| 86.                                      | Saint John's Hospital & Health Center # 6792                | 8,635   | (1)                        |
| 87.                                      | Saint John's Hospital & Health Center # 7169                | 6,316   | (1)(2)                     |
| 88.                                      | Shields for Families, Inc. # 7264                           | 9,886   | (1)                        |
| 89.                                      | Shields for Families, Inc. # 7365                           | 3,795   | (1)                        |
| 90.                                      | Shields for Families, Inc. # 7465                           | 977   |                            |
| 91.                                      | Shields for Families, Inc. # 7536                           | 2,170   | (1)                        |
| 92.                                      | South Bay Children's Health Center Association, Inc. # 1969 | 2,198   | (1)                        |
| 93.                                      | South Bay Children's Health Center Association, Inc. # 7220 | 466   |                            |
| 94.                                      | South Central Health & Rehabilitation Program # 7242        | 6,737   | (1)(2)                     |
| 95.                                      | South Central Health & Rehabilitation Program # 7303        | 6,610   | (1)(2)                     |
| 96.                                      | South Central Health & Rehabilitation Program # 7396        | 2,888   | (1)(2)                     |
| 97.                                      | South Central Health & Rehabilitation Program # 7409        | 3,712   | (1)                        |
| 98.                                      | South Central Health & Rehabilitation Program # 7549        | 1,702   | (1)(2)                     |
| 99.                                      | South Central Health & Rehabilitation Program # 7555        | 3,741   | (1)                        |
| 100.                                     | Step-Up On Second Street, Inc. # 7099                       | 4,199   | (1)                        |
| 101.                                     | Step-Up On Second Street, Inc. # 7525                       | 3,522   | (1)(2)                     |
| 102.                                     | Step-Up On Second Street, Inc. # 7526                       | 4,379   | (1)                        |
| 103.                                     | Stirling Academy, Inc. # 7185                               | 4,607   | (1)(6)(7)(8)               |
| 104.                                     | Stirling Academy, Inc. # 7481                               | 5,987   | (1)(6)(7)(8)               |
| 105.                                     | Topanga-Roscoe Corporation # 7283                           | 74  | (2)(9)                     |
| 106.                                     | Transitional Living Centers for L.A. County, Inc. # 6816    |   | (5)                        |
| 107.                                     | Transitional Living Centers for L.A. County, Inc. # 7162    |   | (5)                        |
| 108.                                     | Transitional Living Centers for L.A. County, Inc. # 7163    |   | (5)                        |
| 109.                                     | Transitional Living Centers for L.A. County, Inc. # 7223    |   | (5)                        |
| 110.                                     | Travelers Aid Society of L.A. # 7105                        |   |                            |
| 111.                                     | Travelers Aid Society of L.A. # 7122                        |   |                            |
| 112.                                     | Verdugo MHC # 1971  | 1,952   |                            |
| 113.                                     | Verdugo MHC # 7193  | 2,432   | (1)(2)(10)                 |

(A) Findings are explained in Attachment B.

| <b><u>Contract Service Providers</u></b>     |   | <b>M.R. Grant<br/>Reported<br/><u>Over-Billings</u></b> | <b><u>Findings (A)</u></b> |
|--|---|---|----------------------------|
| 114.   | Verdugo MHC # 7434                                  | \$ 5,815  | (1)(2)(10)                 |
| 115.   | Verdugo MHC # 7435                                  | 4,893   | (1)(2)(10)                 |
| 116.   | Verdugo MHC # 7496                                  | 864   | (2)(10)                    |
| 117.   | Verdugo MHC # 7497                                  | 1,095   | (1)(2)(10)                 |
| 118.   | Verdugo MHC # 7498                                  | 563   | (2)(10)                    |
| 119.   | VIP Community MHC, Inc. # 7480                      | 1,365   | (2)                        |
| 120.   | Vista Del Mar Child & Family Services # 7196        | 8,794   | (1)                        |
| 121.   | Vista Del Mar Child & Family Services # 7429        | 1,114   | (1)                        |
| 122.   | Watts Labor Community Action Committee, Inc. # 7031 | 504   |                            |
| 123.   | Westside Center for Independent Living, Inc. # 7062 |   |                            |
| <b>Total Contract Service Providers:</b>     |   | <b>\$ 370,569</b>                                       |                            |
| <b><u>DMH Operated Service Providers</u></b> |   | <b>M.R. Grant<br/>Reported<br/><u>Over-Billings</u></b> | <b><u>Findings(A)</u></b>  |
| 124.   | American Indian Counseling Center # 7421            | \$ 2,446  | (1)                        |
| 125.   | Compton Children & Family Services Center # 7398    | 9,088   | (1)(2)                     |
| 126.   | Edmund D. Edelman Westside MHC # 7191               | 6,596   | (1)                        |
| 127.   | Harbor - UCLA Medical Center MH # 6859              | 13,699  | (2)                        |
| 128.   | ICAT - Pasadena OP # 7442                           | 12,139  | (1)(2)                     |
| 129.   | ICAT - Wilshire OP # 7443                           | 10,090  | (1)                        |
| 130.   | Intensive Case Management Program # 7213            | 14,413  | (1)                        |
| 131.   | Mental Evaluation Team # 7217                       | 2,630   |                            |
| 132.   | Palmdale Mental Health Center # 7386                | 6,938   | (1)                        |
| 133.   | Public Guardian # 7012                              |   |                            |
| 134.   | Systemwide Mental Assessment Response Team # 7216   | 3,208   |                            |
| 135.   | START - East, Pasadena # 7404                       | 11,474  | (1)                        |
| 136.   | START - West, Metro North # 7403                    | 944   | (2)                        |
| 137.   | Valley Coordinated Children's Services # 7340       | 5,521   |                            |
| <b>Total DMH Operated Service Providers:</b> |   | <b>\$ 99,186</b>  |                            |
| <b>Total Service Providers:</b>              |   | <b>\$ 469,755</b>                                       |                            |

(A) Findings are explained in Attachment B.

**Summary of Findings**  
**Fiscal Year 2003-04**

- (1) Some of the visits/units of service billed by the provider through DMH's Management Information System (MIS) were not documented in the client files. DMH and the Auditor-Controller consider error rates below 10% of the total sampled billings to be less significant. Sixty-eight (50%) out of 137 providers shown on Attachment A had error rates greater than 10%. DMH will work with the contract providers to collect all overbillings.
- (2) The provider did not have annual Patient Financial Information forms for every client receiving service. DMH and the Auditor-Controller consider error rates below 10% of the total sampled billings to be less significant. Twenty-seven (20%) out of 137 providers referenced in Attachment A had error rates greater than 10%.
- (3) The provider did not reconcile their billings to the MIS records. As a result, DMH cannot verify that the billings are appropriate and reimbursable.
- (4) Three employees listed on the provider's Payroll Register were also given 1099 Forms which are used for independent contractors.
- (5) Total cost listed on the Cost Report was higher than the total cost shown on the provider's audited financial statements. This violates the State Department of Mental Health's Cost Reporting/Data Collection Manual requirement that providers properly record costs of service so that costs in the audited financial statements reconcile to the Cost Report filed with DMH.
- (6) The provider did not submit a formal Cost Allocation Plan as required by the contract. The California State Department of Mental Health's Cost Reporting/Data Collection Manual states that maximum allowable rates shall be monitored through cost reports as well as the budget and audit processes. The Cost Allocation Plan allows DMH to determine if the providers' planned costs are equitable and allowable.
- (7) M.R. Grant's monitoring indicated there may be a question about the provider's ability to continue as a going concern. The trial balances as of June 30, 2001, June 30, 2002, and June 30, 2003 showed an excess of the provider's liabilities compared to their assets by \$18,602, \$70,886, and \$81,063 respectively. Audited financial statements were not available for review (See Footnote 8 below).
- (8) The provider did not have audited financial statements for June 30, 2002 and June 30, 2003. M.R. Grant noted that the provider's accounting records for those years could not be reconciled because of a \$2 million difference between the revenue reported by DMH and the revenue recorded by the provider.
- (9) The provider did not submit audited financial statements for June 30, 2002 and June 30, 2003.
- (10) Total cost listed on the fiscal year 2002-03 Cost Report was \$889,054 higher than the audited financial statements. Total cost listed on the fiscal year 2003-04 Cost Report was \$547,801 higher than the audited financial statements. The California State Department of Mental Health's Cost Reporting/Data Collection Manual stipulates that providers are to properly record costs of service so that costs in the audited financial statements reconcile to the Cost Report filed with DMH.

- (11) M.R. Grant's report shows a higher amount overbilled because M.R. Grant used DMH's MIS billing reports for their review. Upon DMH's review, DMH determined that most of the amounts showing paid to these providers on the MIS reports were not actually paid. This is because the provider's billings were tracked by DMH on the Integrated System (IS) instead of the MIS. As a result, DMH concluded that the providers did not overbill and were not overpaid. The amounts indicated in Attachment A reflect the adjusted amount after DMH's review.